

Characteristics of hospitals by financial performance

ISSUE: What characteristics distinguish hospitals with high and low Medicare margins for hospital inpatient services? Do characteristics associated with substantial margin differences suggest the need for payment system changes?

KEY POINTS: Medicare inpatient margins exhibit substantial variation—the 10th percentile is about –14 percent and the 90th percentile about 27 percent. Although hospitals receiving DSH or IME payments have markedly higher margins than other hospitals, excluding DSH payments and the portion of IME payments beyond the teaching cost relationship has little effect on the variation in margins among hospitals.

As an initial step in analyzing the reasons for this variation, we divided the hospitals covered by Medicare's inpatient PPS into five equal-sized groups based on their Medicare inpatient margins excluding DSH and the above-cost portion of IME payments. We compared these groups (particularly the highest and lowest margin groups) across three types of variables:

- features of the payment system (such as level of wage index);
- facility and environmental characteristics that are generally beyond management control in the short run (such as urban/rural location); and
- characteristics of facilities and their operation that are at least somewhat within management control (such as rate of cost growth).

This paper presents information on the variation in Medicare inpatient margins and then summarizes the data and methods we used in our study. The results will be presented at the Commission meeting.

ACTION: No decisions are needed, but Commissioners are encouraged to comment on the significance of the findings for inpatient payment policy and make suggestions for follow-up study.

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